



# NORTH PERIMETER CHAPTER - GSCPA ACCOUNTING UPDATE 2009 OCTOBER 20, 2009



LISTEN



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SUCCEED

Presented by

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# ACCOUNTING UPDATE 2009



## Financial Accounting Standards Board

- **FASB continues to advance Convergence with international accounting standards**
  - All recent FASB Standards reflect convergence with IFRS
  - FASB believes international standards are best for worldwide markets
  - Pressure for convergence is moving faster than FASB anticipated
  - Conceptual Framework focus is on private sector

# ACCOUNTING UPDATE 2009



## Financial Accounting Standards Board

- **SEC proposed Roadmap for potential use of IFRS by US issuers in 2014**
  - Recently appointed Chief Accountant has affirmed Roadmap of previous Administration

# ACCOUNTING UPDATE 2009

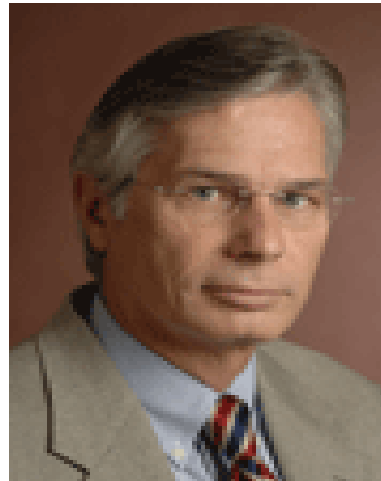


## Financial Accounting Standards Board

- **Board members**



**Bob Herz, Chair**  
**Public Accounting**  
**Former IASB Member**  
**(PWC) (KPMG)**



**Larry Smith**  
**Public Accounting**  
**Former EITF Chair**  
**(Michigan State)**



**Tom Linsmeier**  
**Education**  
**Derivatives Expertise**

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## Financial Accounting Standards Board

- **Board members**



**Leslie Seidman**

**Industry**

**Dir Acctg Policy & Stds**

**(J.P. Morgan)**



**Marc Siegel**

**Industry**

**Forensic Accounting**

**(RiskMetrics Group)**

# ACCOUNTING UPDATE 2009



## Financial Accounting Standards Board

- **Other important components of Generally Accepted Accounting Principles (as established by SFAS 162, May 2008)**
  - **FASB Staff Positions (FSPs) and AICPA Accounting Research Bulletins (Category a gaap)**
  - **FASB Technical Bulletins and FASB cleared AICPA Industry Audit and Accounting Guides and Statements of Position (Category b gaap)**

# ACCOUNTING UPDATE 2009



## Financial Accounting Standards Board

- **Other important components of Generally Accepted Accounting Principles (as established by SFAS 162, May 2008)**
  - **Cleared AICPA AcSEC Practice Bulletins, and Emerging Issues Task Force (EITF) consensus positions and Appendix D Topics (Category c gaap)**
  - **FASB Staff Implementation Guides, AICPA Accounting Interpretations and non-cleared items, and practices that are widely recognized and prevalent (Category d gaap)**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

### ● SFAS 168 – FASB Accounting Standards Codification

- Purpose is to simplify user access to all authoritative U.S. GAAP by putting all authoritative literature on a given topic in one place
- Codification includes all level A – D U.S. GAAP issued by an accounting standard setter (see SFAS 162)
- The Codification does not change any existing U.S. GAAP
- Codification includes certain SEC accounting requirements, which are not applicable to non-public entities

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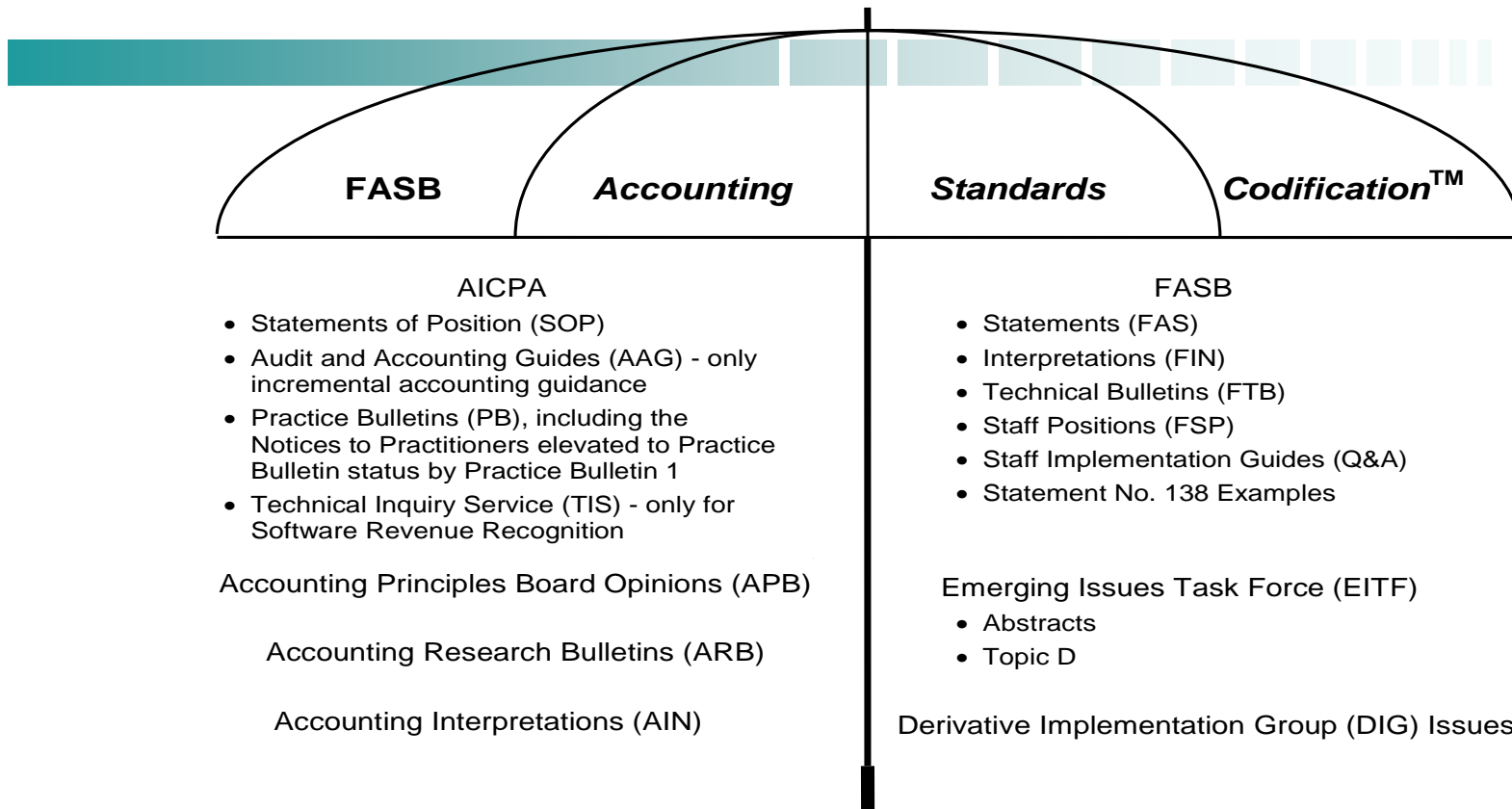


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## New FASB Standards for 2009

5-2

### Professional Literature Included in the FASB Accounting Standards Codification™



# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

5-3a

# Four Main Areas of FASB ASC

### Presentation Topic Codes 205–299

**These topics relate only to presentation matters and do not address recognition, measurement, and de-recognition matters.**

- 205 - Presentation of Financial Statements**
- 210 - Balance Sheet**
- 215 - Statement of Shareholder Equity**
- 220 - Comprehensive Income**
- 225 - Income Statement**
- 230 - Statement of Cash Flows**
- 235 - Notes to Financial Statements**
- 250 - Accounting Changes & Error Corrections**
- 255 - Changing Prices**
- 260 - Earnings per Share**
- 270 - Interim Reporting**
- 275 - Risks and Uncertainties**
- 280 - Segment Reporting**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

5-3b

### Four Main Areas of FASB ASC

#### Financial Statement Accounts

#### Topic Codes 305–700

<b>305 - Cash and Cash Equivalents</b>	<b>440 - Commitments</b>
<b>310 - Receivables</b>	<b>450 - Contingencies</b>
<b>32X - Investments</b>	<b>460 - Guarantees</b>
<b>330 - Inventory</b>	<b>470 - Debt</b>
<b>340 - Deferred Costs and Other Assets Equity</b>	<b>480 - Distinguishing Liabilities from</b>
<b>350 - Intangibles - Goodwill and Other</b>	<b>505 - Equity</b>
<b>360 - Property, Plant, and Equipment</b>	<b>605 - Revenue Recognition</b>
<b>405 - Liabilities</b>	<b>705 - Cost of Sales and Services</b>
<b>410 - Asset Retirement &amp; Environmental Obligations</b>	<b>71X - Compensation</b>
<b>420 - Exit or Disposal Cost Obligations</b>	<b>720 - Other Expenses</b>
<b>430 - Deferred Revenue</b>	<b>730 - Research and Development</b>

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

5-3c

# Four Main Areas of FASB ASC

### Broad Transactions

### Topic Codes 805–899

These topics relate to multiple financial statement accounts and are generally transaction-oriented:

- 805 - Business Combinations**
- 810 - Consolidation**
- 815 - Derivatives and Hedging**
- 820 - Fair Value Measurements & Disclosures**
- 825 - Financial Instruments**
- 830 - Foreign Currency Matters**
- 835 - Interest**
- 840 - Leases**
- 845 - Nonmonetary Transactions**
- 850 - Related Party Disclosures**
- 852 - Reorganizations**
- 855 - Subsequent Events**
- 860 - Transfers and Servicing**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

5-3d

### Four Main Areas of FASB ASC

#### Industries

#### Topic Codes 905–999

**These topics relate to accounting that is unique to an industry or type of activity:**

**905 – Agriculture**

**908 – Airlines**

**91X – Contractors**

**915 - Development Stage Entities**

**92X – Entertainment**

**93X - Extractive Activities**

**9XX - Financial Services**

**952 – Franchisors**

**954 – Health Care Entities**

**956 – Limited Liability Entities**

**958 – Not-for-Profit Entities**

**96X – Plan Accounting**

**97X – Real Estate**

**980 – Regulated Industries**

**985 - Software**

**995 – U.S. Steamship Entities**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 168 – FASB Accounting Standards Codification**
  - Codification is updated by issuance of FASB Accounting Standards Updates (ASUs)
  - Available (free) at [www.fasb.org](http://www.fasb.org)
  - Effective for financial statement periods ending after 9-15-09

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 167 – Amendments of FIN 46(R); VIEs**
  - Redefines primary beneficiary in qualitative manner
    - The power to direct the activities of the VIE that significantly impact the VIE’s economic performance
    - The obligation to absorb losses or receive benefits that could be potentially significant to the VIE
      - Also assess whether the PB has implicit financial responsibility to ensure the VIE operates as designed

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 167 – Amendments of FIN 46(R); VIEs**
  - Requires ongoing re-assessment of whether entity is PB of a VIE
    - Previously assessed only when specific events occurred
  - Additional disclosures required to increase transparency of PB's involvement with VIEs
  - Effective for annual reporting periods beginning after 11-15-09

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## New FASB Standards for 2009

- **SFAS 166 – Accounting for Transfers of Financial Assets**
  - Applies primarily to asset securitizations
  - Responsive to issues which arose during recent “credit crisis”

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 165 – Subsequent Events**
  - **Converts existing Statements on Auditing Standards and Statements on Standards for Accounting and Review Services to Level 1 U.S. GAAP**
    - **No change in the above recognition and disclosure requirements for subsequent events**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 165 – Subsequent Events**
  - Requires disclosure of the date through which management has considered subsequent events
    - The date should be when the financial statements are available to be issued

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 165 – Subsequent Events**
  - **Possibly have an accounting policy footnote for subsequent events and include date in it. For example:**

**Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through (date), which is the date the financial statements were available to be issued.**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 165 – Subsequent Events**
  - Auditors/accountants will need to consider their report dates, which should not be earlier than management’s evaluation date
  - Effective for periods ending after 6-15-09

## ACCOUNTING UPDATE 2009



### New FASB Standards for 2009

- **SFAS 164 – Not-for-Profit Entities: Mergers and Acquisitions**
  - Use Acquisition method when one NFP acquires another NFP
    - Fair value all assets and liabilities of acquired entity
      - Closely follows SFAS 141R – Business Combinations, in determining fair value or other basis

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 164 – Not-for-Profit Entities: Mergers and Acquisitions**
  - Acquisition method
    - Recognize excess of acquisition cost over fair value acquired as goodwill
      - Evaluate impairment of goodwill if contributions of acquired entity decrease
    - Recognize excess of fair value acquired over acquisition cost as a contribution

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## New FASB Standards for 2009

- **SFAS 164 – Not-for-Profit Entities: Mergers and Acquisitions**
  - Use Carryover method when two or more NFPs merge to form a new NFP
    - As method implies, combine the recognized assets and liabilities of the entities into a new entity at their recorded amounts
      - Exceptions to carryover basis apply to achieve consistency of accounting for similar assets and liabilities in the new entity
  - New entity has no historical operations

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### New FASB Standards for 2009

- **SFAS 164 – Not-for-Profit Entities: Mergers and Acquisitions**
  - Substantial disclosures related to both methods
  - Effective for periods beginning after 12-15-09 (early application is prohibited)

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## New FASB Standards for 2009

- **SFAS 163 – Accounting for Financial Guarantee Insurance Contracts**
  - Applicable to insurance enterprises
  - Focus is on premium revenue and claim liability recognition
  - Effective fiscal years beginning after December 15, 2008

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## New FASB Standards for 2009

- **SFAS 162 - The Hierarchy of Generally Accepted Accounting Principles**
  - See above for hierarchy
  - Replaces Statement on Auditing Standards No. 69, which previously established gaap hierarchy

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 161 – Disclosures about Derivative Instruments and Hedging Activities**
  - Provides for additional disclosures about cash flows, financial position and performance
    - How, and why, derivatives are used in terms of underlying risk and accounting designation
      - Disclose objectives and strategies
      - What risk(s) is the entity managing with derivatives

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 161 – Disclosures about Derivative Instruments and Hedging Activities**
  - Provides for additional disclosures about cash flows, financial position and performance
    - How they are accounted for
      - Fair values in tabular form
      - Balance sheet and income statement locations
      - Notional amounts of derivative instruments

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 161 – Disclosures about Derivative Instruments and Hedging Activities**
  - Provides for additional disclosures about cash flows, financial position and performance
    - How they affect financial position, financial performance and cash flows
    - Existence and nature of contingent features
      - Timing and likelihood
      - Cash effects
    - Credit risk related contingencies
      - Potential effect on liquidity

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## New FASB Standards for 2009

- **SFAS 161 – Disclosures about Derivative Instruments and Hedging Activities**
  - Cross references to other footnotes
  - Effective for periods beginning after Nov. 15, 2008

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## New FASB Standards for 2009

- **SFAS 160 – Noncontrolling Interests in Consolidated Financial Statements**
  - Include noncontrolling interests in subsidiaries (aka Minority Interest) in owners' equity on the balance sheet/statement of financial position
    - It is an ownership interest, and therefore should be included in equity
    - Eliminates display as a liability or as a “mezzanine” item
  - Display net income attributable to parent and to noncontrolling interest on income statement

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 160 – Noncontrolling Interests in Consolidated Financial Statements**
  - Changes in ownership interest should be accounted for consistently
    - Purchases, Sales and Reacquires are economically the same and should be accounted for the same, ie as equity transactions
      - Previously some noncontrolling interest transactions could be recognized in income
      - No need to apply purchase accounting to acquisitions of noncontrolling interests

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 160 – Noncontrolling Interests in Consolidated Financial Statements**
  - If control is lost, noncontrolling investment, and gain/loss, initially measured at fair value
    - Gain or loss on deconsolidation measured using FV of noncontrolling equity rather than Parent's carrying amount
      - Fair value of retained interest is considered more relevant than carrying amount
      - Also consistent with SFAS 141R

## ACCOUNTING UPDATE 2009



### New FASB Standards for 2009

- **SFAS 160 – Noncontrolling Interests in Consolidated Financial Statements**
  - Disclosures to identify and distinguish interests of parent and noncontrolling interests
    - Reconciliation of beginning and ending equity balances
    - Effects on parent's equity of changes in parent's ownership interest
  - No effect on earnings per share calculations
  - Effective for fiscal years beginning after 12-15-08

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## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Defines the acquirer as the entity that controls the business
  - Revised to put fair value accounting in place
    - No longer a cost allocation process – Use Fair Value to record identifiable assets acquired
      - Intangible assets are valued at what a market participant would pay (even if not for sale)
      - Leases valued at fair value to reflect market rates
      - Research and development a special area

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Revised to put fair value accounting in place
    - No longer a cost allocation process – Use Fair Value to record liabilities assumed
      - Contractual contingencies valued at fair value
      - Leases valued at fair value to reflect market rent
      - Non-contractual contingencies valued at “more-likely-than-not” criteria, ie not SFAS 5

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Revised to put fair value accounting in place
    - Includes noncontrolling interest share of fair value
  - Recognizes a gain from a bargain purchase at the acquisition date

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## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Goodwill is determined based on the following –
    - Fair value of consideration transferred at acquisition date
    - Fair value of any contingent consideration
      - Equity adjustments recorded in equity when settled
      - Liability adjustments re-measured and recognized in earnings each reporting date
      - Applies to employment agreements, which have to be evaluated for purchase price/compensation accounting

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
    - Goodwill is determined based on the following –
      - Fair value of any non-controlling interest
      - Fair value of any previously owned equity interest
      - Less fair value of assets acquired and liabilities assumed
- =Goodwill, if positive**

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## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Negative goodwill recognized as a gain
    - No longer a reduction of long-lived assets
  - Requires expensing of acquisition transaction costs and restructuring costs

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Disclosures increased to include substantial details of accounting for the acquisition, plus –
    - Business reason for the acquisition
    - Source of goodwill
    - Details of contingencies
    - Explanation of any gain recorded
    - Additional info for public companies
    - Any incomplete accounting matters
    - Whatever else is necessary to understand the transaction

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## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Disclosures increased
    - In subsequent periods, disclose
      - Changes in any incomplete accounting
      - Changes in contingent assets or liabilities
      - A reconciliation of goodwill

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 141R – Business Combinations**
  - Does not apply to joint ventures, entities under common control and not-for-profits
  - Effective date – for acquisitions in years beginning after 12-15-08

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 159 – The Fair Value Option for Financial Assets and Financial Liabilities**
  - **Permits entities to elect to measure most financial instruments and certain other obligations at fair value**
    - **Recognize changes in fair value in net income**
    - **Opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 159 – The Fair Value Option for Financial Assets and Financial Liabilities**
  - Can be applied “instrument by instrument” or to a class
    - Can “split” instruments that can be split, eg shares of stock
    - Exceptions relate to multiple loans to one borrower, multiple instruments with equity method investees, insurance contracts
  - Election dates are transaction driven, and election is “irrevocable” until a new election date

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 159 – The Fair Value Option for Financial Assets and Financial Liabilities**
  - Excludes consolidated entities, employee benefit obligations, lease assets and liabilities, deposit liabilities of financial institutions, items in shareholders' equity
  - Separately display fair value instruments from similar non-fair value instruments
  - Disclosures are intended to provide comparability and transparency information
    - Include management's reasons for electing fair value option

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 159 – The Fair Value Option for Financial Assets and Financial Liabilities**
  - Applicable to not-for-profits, with modifications related to display of “performance indicators”
  - Effective for fiscal years beginning after 11-15-2007, early adoption within 120 days of beginning of fiscal year and early adoption of SFAS 157 (Fair Value)

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans**
  - Two significant changes in accounting for defined benefit plans –
    - First, recognize funded status on balance sheet and recognize changes in funded status in other comprehensive income
      - Funded status is difference between fair value of plan assets and the projected benefit obligation

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans**
  - **Funded status (cont)**
    - **Group over- and under-funded plans separately on balance sheet, with asset classified as long term and a current liability for the excess of benefit obligation payable within 12 months over plan assets**
    - **Recognize gains and losses and prior service costs in other comprehensive income**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans**
  - **Two significant changes (cont)**
    - **Second, measure plan assets and obligations at employer year-end (limited exceptions)**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans**
  - Requires disclosure of future income effect
  - Transition accounting and display depends on plan's funded status
  - FSP 158-1 contains illustrations and Q&As (236 pages)
  - Effective dates for recognition: Publics – 2006; Non-publics – years ending after 6/15/07
  - Effective date for measurement date: All entities – years ending after 12/15/08

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - SFAS 157 establishes accounting principles for fair value, not appraisal practices
  - SFAS 157 prescribes How to determine for fair value, not When to determine fair value
  - AICPA SAS 101 on Auditing Fair Value is relevant to accountants
    - Issued in 2003
    - Provides guidance as to valuation process and documentation

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **FASB Staff Position 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" issued October 2008**
    - Relevant to debt instruments affected by current liquidity and credit market turmoil
    - Several other FSPs issued for particular situations

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Measuring Fair Value**

“Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”

- **Fair value is an Exit Price**
  - Focus on the price that would be received to sell the asset or paid to transfer the liability, not the price that would be paid to acquire the asset or received to assume the liability

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Measuring fair value**
    - Consistent with “willing buyer and willing seller” concept
    - Market based rather than entity specific
    - Focus on market assumptions (observable inputs) rather than Valuer’s assumptions (unobservable inputs)

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value**
  - **Measuring Fair Value**
    - **Applicable to specific assets and liabilities**
      - Condition, location, restrictions, etc
    - **Assume transaction occurs in principal market**
      - **Greatest volume, optimum price**
      - **Use principal market even if a different market has more advantageous price**
    - **Not adjusted for transaction costs**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Measuring Fair Value**
    - **Inputs are the assumptions used in fair value measurement**
      - **Observable inputs are based on market data from independent sources**
      - **Unobservable inputs are the entity's own assumptions about seller's pricing of asset or liability**
        - » **Should maximize Observable and minimize Unobservable**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Marketable and Near-Marketable Assets and Liabilities**
    - **Level 1**
      - Quoted prices (unadjusted) in active markets for identical assets or liabilities
    - **Level 2**
      - Quoted prices for similar assets or liabilities in active markets
      - Quoted prices for identical or similar assets or liabilities in markets that are not active

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Marketable and Near-Marketable Assets and Liabilities**
    - **Level 2**
      - **Inputs other than quoted prices that are observable for the asset or liability**
        - » **eg, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Marketable and Near-Marketable Assets and Liabilities**
    - **Level 2**
      - **Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs)**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Not-readily-marketable assets and liabilities**
    - **Level 3 – Limited or no observable inputs for the asset or liability**
      - **Unobservable inputs used when observable inputs are not available, ie, little, if any, market activity for the asset or liability**
      - **Unobservable inputs reflect entity's assumptions about assumptions market participants would use in pricing the asset or liability**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Level 3 (cont)
    - Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data
    - The entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available

## ACCOUNTING UPDATE 2009



### New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Level 3 (cont)**
    - The entity's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Application of Measurements
    - For assets, assume highest and best use
      - In-use (non-financial assets)
      - In-exchange (financial assets)
    - For liabilities, assume no change in obligation or non-performance risk
      - Credit risk reconsidered at each measurement date

## ACCOUNTING UPDATE 2009



### New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Application of Measurements
    - Initial recognition
      - Purchase price is Entry price, which may not be Fair Value
        - » Related party
        - » Seller under duress
        - » Changes in rights and obligations
        - » Sale in non-principal market

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Valuation Techniques
    - **Market Approach**
      - Transaction involving identical or comparable assets and liabilities
      - Includes use of market multiples from comparables
      - Use of ranges and comparables requires judgment

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Valuation Techniques
    - **Market Approach (cont)**
      - Matrix pricing
        - » **Mathematical technique relying on benchmarks**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Valuation Techniques
    - Income Approach
      - Converts future amounts to present value
      - Use current market expectations about the future
        - » Present value techniques
        - » Pricing models, eg Black-Scholes-Merton or lattice model
        - » Multi-period excess earnings method (see AICPA Practice Aid)

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Valuation Techniques
    - **Cost Approach**
      - Replace service capacity (replacement cost)
      - Comparable utility, adjusted for obsolescence

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Selecting Approach**
    - **Use method appropriate for the circumstances**
    - **Use method with sufficient data**
    - **May use multiple techniques**
      - **Evaluate results considering reasonableness of the range of results**
      - **Fair Value is point most representative of fair value**
  - **Techniques should be consistently applied**
    - **Changes are accounted for as a change in estimate**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Disclosures for Recurring Measurements**
    - The fair value measurements at the reporting date
    - The valuation techniques used
    - Disclose any changes in valuation techniques
    - The Level of each fair value measurement

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Disclosures for Recurring Measurements – Level 3**
    - **A reconciliation of beginning to ending balances, displaying –**
      - **Total gains and losses, and where included in income statement**
      - **Purchases/issuances, sales/settlements, net**
      - **Transfers in/out of Level 3**
    - **The amount of unrealized gains at the reporting date**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Disclosures for Recurring Measurements – Level 3
    - Encouraged to disclose info about other measurements
      - Inventory at market value, eg
    - Can combine with other fair value disclosures
      - Financial instruments, eg

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - **Disclosures for Nonrecurring Measurements**
    - The fair value measurements, and the reasons for the measurement
    - The Level of each fair value measurement
    - For Level 3, significant inputs and how developed
    - Valuation techniques and any changes

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **SFAS 157 – Fair Value Measurements**
  - Effective for financial assets and liabilities beginning after 11/15/07
  - Effective for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **FIN 48 - Uncertain tax positions**
  - Requires recognition of a liability (or asset reduction) for a tax position that meets a more-likely-than-not threshold
  - Measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.
  - Have to assume the tax position will be examined when determining more-likely-than-not
  - FSP deals with what constitutes “settlement”

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **FIN 48 - Uncertain tax positions**
  - Disclosures include:
    - Tabular reconciliations of gross changes in total amounts
    - Tax positions for which it is reasonably possible that the tax benefits will significantly change within 12 months
    - For non-public entities (including not-for-profits), financials issued prior to effective date must have disclosure of current accounting policy for uncertain tax positions (ie, SFAS 5)

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **FIN 48 - Uncertain tax positions**
  - FASB has issued Accounting Standards Update 2009-06, Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities
    - Requires consideration of taxable status of pass-thru entities, not-for-profits, etc.
    - Requires consideration of built-in gains tax, exemption of all income from tax, filing of tax returns in all applicable jurisdictions

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **FIN 48 - Uncertain tax positions**
  - **FASB Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure for Nonpublic Entities**
    - **Pass-thru entities that withhold entity Income taxes for owners are subject to special measurement and disclosure requirements**
    - **Disclosures of open tax years and other matters are required**
      - **No requirement to disclose uncertain tax positions in pass-thru entity's**

# ACCOUNTING UPDATE 2009



## New FASB Standards for 2009

- **FIN 48 - Uncertain tax positions**
  - FSP FIN 48-3, which delayed the effective date FIN 48 for non-public entities to years beginning after 12-15-2008, requires disclosure of current accounting policy for uncertain tax positions in financial statements for periods before 9-15-09
  - AICPA has issued a Practice Aid on FIN 48

# ACCOUNTING UPDATE 2009



## Recent FASB Pronouncements

- **FASB Accounting Standards Update No. 2009-01, Codification and Hierarchy of GAAP**
- **FASB ASU No. 2009-02, Omnibus Update**
- **FASB ASU No. 2009-03, SEC Update**
- **FASB ASU No. 2009-04, Accounting for Redeemable Equity Instruments**
- **FASB ASU No. 2009-05, Measuring Liabilities at Fair Value**
- **FASB ASU No. 2009-06, Implementation Guidance on Accounting for Uncertainty in Income Taxes for Nonpublic Entities**

# ACCOUNTING UPDATE 2009



## Recent FASB Pronouncements

- **Update No. 2009-07 – Accounting for Various Topics – Technical Corrections to SEC Paragraphs (SEC Update)**
- **Update No. 2009-08 – Earnings per Share – Amendments to Section 260-10-S99 (SEC Update)**
- **Update No. 2009-09 – Accounting for Investments – Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees – Amendments to Sections 323-10-S99 and 505-50-S99 (SEC Update)**

# ACCOUNTING UPDATE 2009



## Recent FASB Pronouncements

- **Update No. 2009-10 – Financial Services – Broker and Dealers: Investments – Other – Amendment to Subtopic 940-325 (SEC Update)**
- **Update No. 2009-11 – Extractive Activities – Oil and Gas – Amendment to Section 932-10-S99 (SEC Update)**

# ACCOUNTING UPDATE 2009



## FASB Exposure Drafts

- **Going Concern**
  - Replaces guidance currently in auditing literature, and is substantially the same, except
    - Requires consideration of ability to continue in existence beyond one year
  - Requires the following additional disclosures:
    - Off-financial statement matters (loss of key people, customers, suppliers)
    - Possible discontinuance of operations
    - Information about the recoverability of assets or classification of liabilities

# ACCOUNTING UPDATE 2009



## FASB Exposure Drafts

- **Others**
  - Several related to financial instruments to (1) make accounting more consistent across all types of financial instruments, and (2) enhance clarity and transparency
  - Lease accounting in “Public Consultation”
    - Considering capitalization of all leases

# ACCOUNTING UPDATE 2009



## FASB Projects

- **Conceptual Framework**
  - Improve the quality of information displayed in financial statements so that investors, creditors, and others can better evaluate an enterprise's financial performance and
  - Ascertain that sufficient information is contained in the financial statements to permit calculation of key financial measures used by investors and creditors

# ACCOUNTING UPDATE 2009



## FASB Projects

- **Financial Instruments with Characteristics of Equity**
  - **Basic ownership approach**
    - Only the most residual claim would be equity
    - Approach preferred by FASB
    - Currently the approach used in International Financial Reporting Standards
  - **Ownership-Settlement approach**
    - Adds Perpetual and Indirect Ownership Interests to Basic Ownership Interests in equity

# ACCOUNTING UPDATE 2009



## FASB Projects

- **Financial Instruments with Characteristics of Equity**
  - **Reassessed Expected Outcomes approach**
    - **Would include instruments that change in fair value with changes in Basic Ownership instruments**

# ACCOUNTING UPDATE 2009



## FASB Projects

- **Financial Statement Presentation**
  - Tentative conclusion is a full set of financial statements is comparative information for two full years, consisting of statements of:
    - 3 years of financial position
    - 2 years of earnings and comprehensive income
    - 2 years of cash flows
    - 2 years of changes in equity
  - Financial statements would classify accounts as operating (business), financing and investing

# ACCOUNTING UPDATE 2009



## FASB Projects

- **Private Company Financial Reporting**
  - FASB is considering GAAP Differences vs. Separate GAAP approach
  - Criteria considers different user needs
    - Difference in user access to information
    - Cost/Benefit considerations
    - Small/Large business vs. Public/Nonpublic business
  - Private Company Financial Reporting Committee formed and active

# ACCOUNTING UPDATE 2009



## FASB Projects

- **Leases**
  - All leases would be “capital” leases
    - Term, contingent rentals, etc would be best estimate
- **Revenue Recognition**
  - Using a change in assets and liabilities approach
  - Identify all rights and obligations
    - Revenue results when performance obligation satisfied
    - Pre-arrangement activities may produce revenue

# ACCOUNTING UPDATE 2009



## FASB Staff Positions

- **FSP FAS 142-3 – “Determination of useful life of intangible assets”**
  - **Posted April 25, 2008**
  - **Amends factors to consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset**
    - **Establishes consistency as to expected cash flow periods**

# ACCOUNTING UPDATE 2009



## FASB Staff Positions

- **FSP FAS 117-1 – "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"**
- **Others on FASB web site should be reviewed for applicability to your organization**

# ACCOUNTING UPDATE 2009



## EITF – Recent Consensus

- **EITF 09-03: Related to multiple-element software sales revenue recognition under SOP 97-2**
- **EITF 08-9: Milestone Method of Revenue Recognition**
- **EITF 08-6: Equity Method Investment Accounting Considerations**
- **EITF 08-3: Accounting by Lessees for Maintenance Deposits**
- **EITF 08-2: Lessor Revenue Recognition for Maintenance Services**

# ACCOUNTING UPDATE 2009



## EITF – Recent Consensus

- **EITF 08-1: Revenue Recognition for a Single Unit of Accounting**
- **EITF 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements**
- **EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements**

## AUDIT UPDATE 2009



### **SFAS 115 – Communicating Internal Control Matters Identified in an Audit**

- **Redefines Material Weakness as one which is “reasonably possible” etc (previously “more than remote”**
- **Redefines Significant Deficiency as less severe than a material weakness, but important enough to communicate to governance**

## AUDIT UPDATE 2009



### **SFAS 115 – Communicating Internal Control Matters Identified in an Audit**

- **Lists 4 matters that are indicators of material weaknesses –**
  - **Identification of fraud**
  - **Restatement of previously issued financials**
  - **Identification of material misstatements by the auditor**
  - **Ineffective oversight by those charged with governance**

## AUDIT UPDATE 2009



### **SFAS 115 – Communicating Internal Control Matters Identified in an Audit**

- **Provides circumstances that may be deficiencies, significant deficiencies or material weaknesses**
  - Separately identified as design and operational deficiencies
  - Auditors should document consideration of all “circumstances” for any that came to their attention

# AUDIT UPDATE 2009



## SAS 116 – Interim Financial Information

- **Requires reviews of interim financials on same basis as year-end audited financials to be performed under SAS 116**
  - **Interim financials do not have to be reported on by auditor unless referred to**
  - **Interim financials may be condensed**
    - **Technical Practice Aid 1900.01 provided guidance and other applicable standards**
  - **Effective for interim periods beginning after 12-15-09**

## AUDIT UPDATE 2009



### **SSAE 15 – Examination of an Entity’s Internal Control over Financial Reporting**

- **Provides standards for reporting on a non-issuers internal control that are converged with the PCAOB’s rules for public companies**
  - **Similar in language to Risk Assessment Standards**
  - **Provides for a top-down approach**

## AUDIT UPDATE 2009



### Other Audit Matters

- **SAS Interpretation No 1, Use of Electronic Confirmations**
- **Clarity Project Exposure Drafts**
  - Audit Documentation
  - Communication with those charged with Governance

# AUDIT UPDATE 2009



## Other Audit Matters

- **Other Exposure Drafts**
  - **Special Considerations – Audits of special purpose framework financial statements, single financial statements, and specific elements, accounts or items of a financial statement**
  - **Reporting on non-US GAAP financials**
  - **Reporting on Summary Financial Statements**
  - **Reporting on compliance with contractual agreements or regulatory requirements in connection with audited financials**
  - **Modifications to opinions and emphasis of a matter**

## PLANNING FOR THE FUTURE



- Monitor the FASB web site ([www.fasb.org](http://www.fasb.org))
- Monitor the AICPA web site  
<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/>
- Use the GSCPA Assurance Services Section ListServe [assurance@lists.gscpa.org](mailto:assurance@lists.gscpa.org)
- Call on Assurance Services Section Hotline

# *Bon Auditpetite!*